

Registration number: 09763672

Snap Group Limited

Annual report and financial statements

for the year ended 31 December 2018



Snap Group Limited

Contents

Company information	1
Strategic report	2
Directors' report	4
Directors' responsibilities statement	6
Independent auditor's report	7
Profit and loss account	9
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	13
Notes to the financial statements	15

Snap Group Limited

Company information

Directors	D M A Lewis A L Reid
Registered office	7-11 Lexington Street London W1F 9AF
Independent auditor	Ernst & Young LLP 1 More London Place, London SE1 2AF

Snap Group Limited

Strategic report

For the year ended 31 December 2018

The directors present their Strategic report for the year ended 31 December 2018.

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

Review of the business

Snap Group Limited (the 'Company') and subsidiaries ('Snap') is a wholly owned indirect subsidiary of Snap Inc., a Delaware corporation. Snap Inc. is engaged in the business of designing, developing, maintaining, and commercialising a technology platform that provides messaging, media, and other services to users as well as other related products and services (collectively, the 'Products and Services'). The Company generates revenue primarily through advertising.

Advertising Products

Snap's ad products are built on the same foundation that makes its consumer products successful. This means that Snap can take the things it learns while creating its consumer products and apply them to building innovative and engaging advertising products familiar to its community. Sponsored Lenses take advantage of the reach and scale of its augmented reality platform to create visually engaging 3D experiences. Snap Ads let advertisers tell their stories the same way its users do, using full screen videos with sound. Snap Ads also allow advertisers to integrate additional experiences and actions directly within these ad units, including watching a long-form video, visiting a website, or installing an app.

Campaign Management and Delivery

Snap is always working to improve the way ads are bought and delivered. Snap is investing heavily in its self-serve tools, which provide for automated, sophisticated, and scalable ad buying and campaign management. This helps advertisers increase their return on investment by providing more refined targeting, the ability to test and learn with different creatives or campaign attributes in real time, and the dynamics of its self-serve pricing. Additionally, Snap's delivery framework continues to optimize relevance of ads across the entire platform by determining the best ad to show to any given user based on their real-time and historical attributes and activity. This decreases the number of wasted impressions while improving the effectiveness of the ads that are shown to its community.

Measuring Advertising Effectiveness

Snap offers a broad range of third-party and first-party solutions to provide analytics on campaign attributes like reach, frequency, demographics, and viewability; changes in perceptions like brand favourability or purchase intent; and lifts in actual behaviour like purchases, foot traffic, app installs, and online purchases. Snap is constantly expanding its ability to provide more transparency to advertisers.

In the year, the Company's revenue increased from \$203,566,185 to \$403,722,233 due to international growth and in line with Snap's global revenues.

The loss for the year, after taxation is \$312,823,104 (2017: \$446,982,638). The cost base was primarily driven by hosting costs of \$310,315,363 (2017: \$251,363,891), intercompany operating expenses of \$273,723,957 (2017: \$215,939,441), and direct cost of sales relating to the advertising business of \$56,983,583 (2017: \$36,647,814).

The details of non-financial key performance indicators are explained in more detail in Snap Inc.'s Annual Report on Form 10-K for the year ended 31 December 2018.

Principal risks and uncertainties

The principal risks of the Company are managed at a group level, rather than at an individual business unit level. The principal risks and uncertainties of the group, which include the Company are discussed on pages 8 to 35 of Snap Inc.'s 2018 Annual Report on Form 10-K which is not part of these financial statements and can be obtained as set out in note 31.

Snap Group Limited

Strategic report (continued) For the year ended 31 December 2018

Events after the balance sheet date

Details of significant events since the balance sheet date are contained in note 29 to the financial statements.

Approved by the board of directors on 27/9/19 and signed on its behalf by:



.....
A L Reid
Director

Snap Group Limited

Directors' report

For the year ended 31 December 2018

The directors present their annual report and financial statements of the Company for the year ended 31 December 2018.

Directors

The directors of the Company during the year and up to the date of the signing of the financial statements, were as follows:

D M A Lewis

A L Reid

Principal activity

The Company is engaged in the business of selling advertisements and providing sales support, operations support, and engineering support to Snap Inc. and related Products and Services.

Results and dividends

The results for the financial year ended 31 December 2018 are set out on page 9. The loss for the financial year amounted to \$312,823,104 (2017: \$446,982,638) per the profit and loss account.

The directors do not recommend payment of a dividend for the year (2017: \$nil).

Financial risk management objectives and policies

The Company's activities expose it to financial risks, such as credit risk. The Company's principal financial assets are bank balances, trade receivables, prepaid royalties, deferred royalties, and other receivables.

The Company's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. There is no such evidence of the need for any material impairment of trade receivables in the current or previous period.

The risks in respect of liquidity, interest rate, cash flow, foreign exchange, and price are managed on a group level by the parent of the Company, Snap Inc.

Research and development

Research and development expenses consisted primarily of personnel-related costs, including salaries, benefits, and stock-based compensation for engineers and other employees engaged in the research and development of Products and Services. The Company incurred \$7,047,611 (2017: \$3,422,890) in research, development, and engineering expenditures during the period.

Going concern

The Company has net assets of \$90,508,837 (2017: \$399,468,166). Snap Inc., the Company's ultimate parent, has indicated that it will provide or procure such funds as necessary to enable the Company to settle all liabilities as they fall due 12 months from date of these financial statements. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Company continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' indemnities

Snap Inc. maintains liability insurance for all directors of the Company. Snap Inc. has also provided an indemnity to all directors of the Company, which is a qualifying third-party indemnity provision for the purpose of the Companies Act 2006.

Snap Group Limited

Directors' report (continued) For the year ended 31 December 2018

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Ernst & Young LLP has indicated its willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Approved by board of directors on 27/9/19 and signed on its behalf by:



.....
A L Reid
Director

Snap Group Limited

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, Directors' report, and the financial statements in accordance with applicable law and regulations.

Under Companies Act 2006, directors are required to prepare such financial statements for each financial year. Under Companies Act 2006, the directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 101 has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable the Company to ensure that the financial statements comply with the Companies Act 2006. Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Snap Group Limited

Opinion

We have audited the financial statements of Snap Group Limited for the year ended 31 December 2018 which comprise the profit and loss account, the balance sheet, statement of cash flows, the statement of comprehensive income, the statement of changes in equity and the related notes 1 to 31, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 'Reduced Disclosure Framework' ('United Kingdom Generally Accepted Accounting Practice').

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('FRC') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Snap Group Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Phillip Young (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 September 2019
Date:.....

Snap Group Limited

Profit and loss account

For the year ended 31 December 2018

	Note	2018 \$	2017 \$
Revenue	5	403,722,233	203,566,185
Cost of sales	6	<u>(373,330,755)</u>	<u>(351,658,449)</u>
Gross profit/(loss)		30,391,478	(148,092,264)
Operating expenses	7	(341,657,664)	(303,052,810)
Foreign exchange (loss)/gain	8	<u>(1,221,953)</u>	<u>1,923,422</u>
Operating loss		(312,488,139)	(449,221,652)
Finance income	9	2,558,520	5,527,732
Finance costs	10	<u>(3,816,918)</u>	<u>(3,567,018)</u>
Loss before taxation		(313,746,537)	(447,260,938)
Tax on loss	14	<u>923,433</u>	<u>278,300</u>
Loss for the financial year		<u><u>(312,823,104)</u></u>	<u><u>(446,982,638)</u></u>

The results for the financial year shown above are derived entirely from continued activities.

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

Statement of comprehensive income For the year ended 31 December 2018

	2018 \$	2017 \$
Loss for the year	<u>(312,823,104)</u>	<u>(446,982,638)</u>
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss)/gain on marketable securities measured at fair value through other comprehensive income	<u>(61,764)</u>	<u>97,067</u>
Total comprehensive loss for the year	<u><u>(312,884,868)</u></u>	<u><u>(446,885,571)</u></u>

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

Balance sheet As at 31 December 2018

	Note	2018 \$	2017 \$
Fixed assets			
Intangible assets	15	14,328,140	15,942,162
Tangible fixed assets	16	6,754,001	8,620,657
Investments in subsidiaries	17	-	6,520,100
		<u>21,082,141</u>	<u>31,082,919</u>
Current assets			
Inventory	18	1,443,492	19,623
Trade and other receivables: amounts falling due after more than one year	19	206,428,955	233,788,697
Trade and other receivables: amounts falling due within one year	19	123,851,143	86,547,755
Contract assets	20	44,357,901	24,378,332
Cash and cash equivalents	21	37,498,047	223,927,959
Marketable securities	22	-	131,240,318
		<u>413,579,538</u>	<u>699,902,684</u>
Current liabilities			
Trade and other payables: amounts falling due within one year	23	(254,542,503)	(240,733,388)
Contract liabilities	20	(3,146,099)	(766,670)
Net current assets		<u>155,890,936</u>	<u>458,402,626</u>
Total assets less current liabilities		176,973,077	489,485,545
Non-current liabilities			
Trade and other payables: amounts falling due after more than one year	23	(85,336,607)	(86,774,074)
Provisions		<u>(1,127,633)</u>	<u>(3,243,305)</u>
Net assets		<u>90,508,837</u>	<u>399,468,166</u>
Equity			
Called-up share capital	25	2,607	2,607
Share premium account	25	869,749,026	869,749,026
Share based payment reserve		(20,705,771)	(24,631,310)
Other reserve	25	-	61,764
Retained earnings	25	<u>(758,537,025)</u>	<u>(445,713,921)</u>
Total shareholder's funds		<u>90,508,837</u>	<u>399,468,166</u>

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

Balance sheet (continued) As at 31 December 2018

The financial statements of Snap Group Limited (registration number: 09763672) were approved by the board of directors and authorised for issue on 27/1/19.

They were signed on its behalf by:



.....
A L Reid
Director

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

**Statement of changes in equity
For the year ended 31 December 2018**

	Called-up share capital	Share premium account	Share based payment reserve	Other reserve	Retained earnings	Total shareholders' funds
	\$	\$	\$	\$	\$	\$
At 1 January 2017	1,397	806,518,590	-	(35,303)	1,268,717	807,753,401
Loss for the financial year	-	-	-	-	(446,982,638)	(446,982,638)
Other comprehensive income	-	-	-	97,067	-	97,067
Total comprehensive loss for the financial year	-	-	-	97,067	(446,982,638)	(446,885,571)
New share capital subscribed	1,210	63,230,436	-	-	-	63,231,646
Share-based payment recharges	-	-	7,761,159	-	-	7,761,159
Share-based payment transactions	-	-	(32,392,469)	-	-	(32,392,469)
At 31 December 2017	<u>2,607</u>	<u>869,749,026</u>	<u>(24,631,310)</u>	<u>61,764</u>	<u>(445,713,921)</u>	<u>399,468,166</u>

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

Statement of changes in equity (continued)
For the year ended 31 December 2018

	Called-up share capital \$	Share premium account \$	Share based payment reserve \$	Other reserve \$	Retained earnings \$	Total shareholders' funds \$
At 1 January 2018	2,607	869,749,026	(24,631,310)	61,764	(445,713,921)	399,468,166
Loss for the financial year	-	-	-	-	(312,823,104)	(312,823,104)
Other comprehensive loss	-	-	-	(61,764)	-	(61,764)
Total comprehensive loss for the financial period	-	-	-	(61,764)	(312,823,104)	(312,884,868)
Adoption of new amendments to IFRS 2	-	-	4,849,432	-	-	4,849,432
Share-based payment recharges	-	-	14,467,707	-	-	14,467,707
Share-based payment transactions	-	-	(15,391,600)	-	-	(15,391,600)
At 31 December 2018	<u>2,607</u>	<u>869,749,026</u>	<u>(20,705,771)</u>	<u>-</u>	<u>(758,537,025)</u>	<u>90,508,837</u>

The notes on pages 15 to 39 form an integral part of these financial statements.

Snap Group Limited

Notes to the financial statements For the year ended 31 December 2018

1 General information

Snap Group Limited (the 'Company') is a private company limited by share capital incorporated in England and Wales and domiciled in the United Kingdom ('UK').

The address of its registered office is:

7-11 Lexington Street

London

W1F 9AF

The nature of the Company's operations and its principal activities are set out in the Strategic report and Directors' report on pages 2 to 5.

These financial statements are presented in US Dollars ('USD') and the functional currency of the Company continues to be USD. The functional currency is determined by the primary economic environment in which the Company operates. Revenue generated by the Company is largely either denominated in, or is influenced by USD. The main costs of providing such services are relating to the revenue are also largely denominated or influenced by USD.

2 Adoption of new and revised Standards

Impact of initial application of other amendments to International Financial Reporting Standards ('IFRS') and Interpretations

In the current year, the Company has applied a number of amendments to International Accounting Standards ('IAS'), IFRS Standards and International Financial Reporting Interpretations Committee ('IFRIC') and Interpretations issued by the International Accounting Standards Board ('IASB') that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- IFRS 2 (amendment) 'Classification and Measurement of Share-based Payments Transactions';
- IAS 40 (amendments) 'Transfers of Investment Property';
- Amendments to IAS 28 'Investments in Associates and Joint Ventures';
- IFRS 9 'Financial Instruments' (effective date 1 January 2018 other than hedge accounting provisions, effective 1 January 2019);
- IFRS 15 'Revenue from Contract with Customers' (effective date 1 January 2018); and
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'.

3 Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

3 Accounting policies (continued)

Basis of preparation (continued)

Certain reclassifications have been made to the comparative information for the year ended 31 December 2017, to align with the classifications for the year ended 31 December 2018. These reclassifications have not had an effect on the Company's equity, nor do they have a material impact on the financial statements.

Summary of disclosure exemptions

The following exemptions from the requirements of 'IFRS' have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 79(a) (iv) of IAS 1, 'International Accounting Standards'.
- Paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 79(a) (iv) (International Accounting Standards),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 5, 30, and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Where relevant, equivalent disclosures have been given in the group financial statements of Snap Inc. The group financial statements of Snap Inc. are available to the public and can be obtained as set out in note 31.

The principal accounting policies adopted are set out below.

Going concern

After making inquiries, the directors have a reasonable expectation that the Company has adequate resources, or if needed, can adequately rely on resources from Snap Inc., to continue in operational existence for the next 12 months from the date of signing of the financial statements. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

3 Accounting policies (continued)

Revenue recognition

The Company has initially applied IFRS 15 from 1 January 2018. Revenue is recognized when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration we expect to receive in exchange for those goods or services. The Company determines collectability by performing ongoing credit evaluations and monitoring customer accounts receivable balances. VAT and other sales-related taxes payable to the taxation authority is excluded from reported revenue. Where revenue is recognised ahead of billing this results in a contract asset. Where revenue is recognised after billing this results in a contract liability.

The Company generates substantially all of its revenues by offering various advertising products on Snapchat, which include Snap Ads and Sponsored Creative Tools, and measurement services, referred to as advertising revenue. Sponsored Creative Tools include Sponsored Geofilters and Sponsored Lenses. Sponsored Geofilters allow users to interact with an advertiser's brand by enabling stylized brand artwork to be overlaid on a Snap. Sponsored Lenses allow users to interact with an advertiser's brand by enabling branded augmented reality experiences.

The substantial majority of advertising revenue is generated from the display of advertisements on Snapchat through contractual agreements that are either on a fixed fee basis over a period of time or based on the number of advertising impressions delivered. Revenue related to agreements based on the number of impressions delivered is recognized when the advertisement is displayed. Revenue related to fixed fee arrangements is recognized ratably over the service period, typically less than 30 days in duration, and such arrangements do not contain minimum impression guarantees. In determining whether an arrangement exists, the Company ensures that an agreement, such as an insertion order or self-serve terms, have been fully executed or accepted electronically. The Company sells advertising directly to advertisers ('Snap-sold' revenue) and certain partners that provide content on Snapchat ('content partners') also sell directly to advertisers ('partner-sold' revenue). Snap Ads may be subject to revenue sharing agreements between the Company and its content partners. The Company's Sponsored Creative Tools and measurement services are only Snap-sold and are not subject to revenue sharing arrangements. Snap-sold revenue is recognized based on the gross amount that the Company charges the advertiser. Partner-sold revenue is recognized based on the net amount of revenue to be received from the content partners.

The Company recognizes Snap-sold revenue on a gross basis predominantly because the Company is the primary obligor responsible for fulfilling advertisement delivery, including the acceptability of the services delivered. For Snap-sold advertising, the Company enters into contractual arrangements directly with advertisers. The Company is directly responsible for the fulfilment of the contractual terms and any remedy for issues with such fulfilment. For Snap-sold revenue, the Company also has latitude in establishing the selling price with the advertiser, as the Company sells advertisements at a rate determined at its sole discretion.

The Company recognizes partner-sold revenue on a net basis predominantly because the content partner, and not the Company, is the primary obligor responsible for fulfillment, including the acceptability of the services delivered. In partner-sold advertising arrangements, the content partner has a direct contractual relationship with the advertiser. There is no contractual relationship between the Company and the advertiser for partner-sold transactions. When a content partner sells advertisements, the content partner is responsible for fulfilling the advertisements, and accordingly, the Company has determined the content partner is the primary obligor. Additionally, the Company does not have any latitude in establishing the price with the advertiser for partner-sold advertising. The content partner may sell advertisements at a rate determined at its sole discretion. For the periods presented, partner-sold revenue was not material.

The Company also generates intercompany revenue from the rendering of services to related entities based on contractual arrangements and revenue from sales of its hardware product, Spectacles.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

3 Accounting policies (continued)

Revenue recognition (continued)

Finance income

Finance income is primarily composed of interest income, which is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Tax

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the end of each reporting period. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

3 Accounting policies (continued)

Tax (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets (other than assets under construction) less residual values on a straight line basis over their expected useful economic lives. The principal annual periods used for this purpose are:

Asset class	Depreciation rate
Leasehold improvements	Term of lease
Fixtures, fittings, and equipment	5 years
Computer equipment	3 years
Property, plant, and equipment	3 years

The estimated useful lives, residual values, and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant, and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

3 Accounting policies (continued)

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Intellectual property	5 years straight line

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit and loss when the asset is derecognised.

Impairment of non-financial assets

Non-derivative financial assets

Non-financial assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset company that generates cash flows that largely are independent from other assets and companies. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (company of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. In respect of work in progress and finished goods, cost includes overheads, transportation, and duty costs where appropriate. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving, and defective inventories.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

3 Accounting policies (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term except where another systematic basis is more representative of time pattern in which economic benefits from the lease asset are consumed.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax from the proceeds.

Financial instruments

Effective 1 January 2018, the Company adopted IFRS 9 which sets out requirements for the recognition, measurement, impairment, and derecognition of financial instruments. This standard simplifies the classification of a financial asset as either at amortised cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39 Financial Instruments: Recognition and Measurement. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortised cost. There is no change to the initial measurement of the Company's financial assets. Impairment of financial assets is based on an expected credit loss ('ECL') model under IFRS 9, rather than the incurred loss model under IAS 39. ECLs are probability-weighted estimates of credit losses. The Company calculated ECLs based on consideration of customer-specific factors, actual credit loss experience, and a provision matrix. The Company has determined that the application of IFRS's impairment requirements at 1 January 2018 did not result in significant changes to its bad debt allowance for the periods presented.

The adoption of IFRS 9 has not had an effect on the Company's accounting policies related to financial liabilities for the periods presented.

The Company completed a detailed assessment of its financial assets and liabilities at 1 January 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets / liabilities	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Amortised cost	Amortised cost
Marketable securities	Amortised cost or FVOCI	Amortised cost or FVOCI
Trade and other receivables	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

3 Accounting policies (continued)

Financial instruments (continued)

There was no material impact on transition to IFRS 9 on the Company's balance sheet at 1 January 2018.

Financial assets

Financial assets of the Company include cash and trade and other receivables. Trade and other receivables are initially recognised when they are originated and are measured at the transaction price. These financial assets did not contain a significant financing component for the periods presented.

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities of the Company include trade and other payables. Financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

The Company recognises the financial liabilities at amortised cost using the effective interest method as they are not classified as held-for-trading, not a derivative, and not designated as such on initial recognition. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for a least 12 months after the reporting date.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

3 Accounting policies (continued)

Share-based payments

Where Snap Inc. has granted rights to its equity instruments to employees and non-employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. Refer to note 30 for further details. Restricted stock units ('RSUs') granted to employees before 31 December 2016 generally contain both service-based and event-based conditions to vest in the underlying shares. RSUs granted after 31 December 2016 generally contain service-based conditions to vest in the underlying shares. The event-based condition will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of Snap Inc.'s assets or a merger involving the sale of a majority of the outstanding shares of Snap Inc.'s voting shares, or (2) the effective date of the registration statement of Snap Inc. in connection with a qualifying initial public offering. The event-based condition was satisfied in March 2017. The event-based condition did not impact the timing of recognition of the expense. Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share-based payments to non-employees are measured at the fair value of the equity instruments at the vesting date for vested awards or the reporting date for unvested awards.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on an accelerated attribution basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of the service-based condition. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflected the revised estimate, with a corresponding adjustment to equity reserves.

4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of policies and reported amount of assets and liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying value of assets and liabilities that are not readily apparent from other sources.

The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are addressed below.

Income taxes and deferred tax

Significant estimates are made to determine both current and deferred tax liabilities/assets. In particular, the Company must determine the possibility that deferred tax assets will be utilised and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changes in tax legislation, or the outcome of the final review of tax returns by tax authorities.

Value of intellectual property

The Company determines the estimated useful lives, residual values, and related charges for its intellectual property with reference to the estimated periods that the Company intends to derive future economic benefits from the use of these assets. Management will revise the amortisation charge where useful lives or residual values are materially different from those previously estimated. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic reviews could result in a change in useful economic lives and residual values and therefore amortisation expenses in the future periods. The estimates used in the value in use calculations are reviewed internally and approved by the Company.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

5 Revenue

	2018	2017
	\$	\$
Sale of goods	5,295,091	38,738,320
Rendering of services	365,346,446	154,073,239
Rendering of services - Intercompany	33,080,696	10,754,626
	<u>403,722,233</u>	<u>203,566,185</u>

Timing of revenue recognition

	2018	2017
	\$	\$
Goods transferred at a point in time	5,295,091	38,738,320
Services transferred overtime	398,427,142	164,827,865
	<u>403,722,233</u>	<u>203,566,185</u>

An analysis of the Company's revenue by class of business and principal place of business is set out below.

	2018			2017		
	\$			\$		
	Third Party	Intercompany	Total	Third Party	Intercompany	Total
North America (1)	27,726,621	4,681,252	32,407,873	20,981,302	36,914,333	57,895,635
Europe (2)	146,869,999	18,625,397	165,495,396	88,450,191	8,248,273	96,698,464
Rest of World	192,267,259	13,551,705	205,818,964	46,672,061	2,300,025	48,972,086
	<u>366,863,879</u>	<u>36,858,354</u>	<u>403,722,233</u>	<u>156,103,554</u>	<u>47,462,631</u>	<u>203,566,185</u>

(1) North America includes Mexico, the Caribbean, and Central America.

(2) Europe includes Russia and Turkey.

6 Cost of sales

		2018	2017
	Note	\$	\$
Advertising cost of sales		56,983,583	36,647,814
Hosting costs		310,315,363	251,363,891
Intercompany product cost of sales		2,875,493	36,552,776
Other cost of sales		2,093,723	4,635,356
Impairment of inventory	18	1,062,593	22,458,612
		<u>373,330,755</u>	<u>351,658,449</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

7 Operating expenses

		2018	2017
	Note	\$	\$
Amortisation of intangible assets	15	4,535,474	4,000,124
Depreciation of tangible fixed assets	16	2,703,060	3,637,547
Impairment loss on tangible fixed assets	16	-	121,897
Operating lease expense - property	26	2,886,449	3,068,111
Intercompany royalty expense	19	31,131,028	24,686,172
Intercompany management services expense		83,743,313	51,233,409
Intercompany research and development expense		131,910,880	115,294,313
Intercompany sales and marketing expense		26,938,736	24,725,547
Sales and marketing costs		2,491,310	2,787,162
Staff costs	11	39,461,340	60,379,780
General and administrative overheads		15,856,074	13,118,748
		<u>341,657,664</u>	<u>303,052,810</u>

8 Foreign exchange differences

	2018	2017
	\$	\$
Foreign exchange losses/(gains)	<u>1,221,953</u>	<u>(1,923,422)</u>

9 Finance income

	2018	2017
	\$	\$
Finance income from group undertakings	64,216	2,537,539
Other finance income	<u>2,494,304</u>	<u>2,990,193</u>
	<u>2,558,520</u>	<u>5,527,732</u>

10 Finance costs

	2018	2017
	\$	\$
Finance costs from group undertakings	3,580,443	3,504,104
Other finance costs	<u>236,475</u>	<u>62,914</u>
	<u>3,816,918</u>	<u>3,567,018</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

11 Staff costs

The average monthly number of employees (including directors) in the year was:

	2018 No.	2017 No.
Administration	31	29
Sales and operations	96	80
Engineering	30	19
	<u>157</u>	<u>128</u>

Their aggregate remuneration in the year comprised:

	2018 \$	2017 \$
Wages and salaries	32,472,715	52,557,336
Social security costs and benefits	5,774,583	7,056,458
Pension costs	816,422	685,955
Other	397,620	80,031
	<u>39,461,340</u>	<u>60,379,780</u>

Included in wages and salaries is share-based payments expense of \$9,730,587 (2017: \$34,598,724).

12 Directors' remuneration

The directors' services to the Company have been considered insignificant. Therefore, the directors did not receive any remuneration for their qualifying services. The directors do not hold any equity in the Company and did not participate in a defined benefit or money purchase pension scheme.

13 Auditor's remuneration

	2018 \$	2017 \$
Services provided by the Company's auditor		
Fees payable for the audit of the Company's annual financial statements	<u>186,279</u>	<u>200,054</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

14 Tax on loss

Tax charged/(credited) for the year in the profit and loss account:

	2018 \$	2017 \$
Current tax		
UK corporation tax	(891,209)	(251,958)
UK corporation tax adjustment in respect of prior years	(32,224)	-
Total current tax	<u>(923,433)</u>	<u>(251,958)</u>
Deferred tax		
Current year	-	(30,990)
Effect of changes in tax rates	-	4,648
Total deferred tax	<u>-</u>	<u>(26,342)</u>
Tax credit in the profit and loss account	<u>(923,433)</u>	<u>(278,300)</u>

The tax on loss before taxation for the year is the same as the standard rate of corporation tax in the UK (2017: higher than the standard rate of corporation tax in the UK) of 19.00% (2017: 19.25%).

The credit for the year can be reconciled to the loss per the profit and loss account as follows:

	2018 \$	2017 \$
Loss before taxation	<u>(313,746,537)</u>	<u>(447,260,938)</u>
Tax on loss at standard UK rate of corporation tax at standard rate of 19.00% (2017: 19.25%)	(59,611,842)	(86,082,524)
Effects of:		
Adjustment in respect of prior years	(32,224)	4,380
Expenses not deductible	146,260	1,746,977
Tax rate changes	-	37,357
Effects of group relief/other reliefs	69,091	990,726
Amounts not recognised	57,747,497	85,871,417
Share options	(970,948)	(2,914,212)
Non qualifying asset	197,058	67,579
Gain on Asset Sale	1,531,675	-
Tax charge for the year	<u>(923,433)</u>	<u>(278,300)</u>

As of December 31, 2018, the Company had \$730,900,000 (2017: \$430,500,000) of U.K. tax losses that can be carried over indefinitely. A deferred tax has not been recognised in respect of these losses as their future utilization is uncertain.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

14 Tax on loss (continued)

Factors affecting future tax charge

Finance (No. 2) Act 2015 reduced the UK corporation tax rate from 20% to 19% from 1 April 2017. A further reduction in the corporation tax rate to 17% will apply with effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016).

15 Intangible assets

	Intellectual property \$
Cost or valuation	
At 1 January 2018	19,942,286
Additions	10,982,901
Disposals	<u>(8,061,449)</u>
At 31 December 2018	<u>22,863,738</u>
Accumulated amortisation	
At 1 January 2018	4,000,124
Amortisation charge	<u>4,535,474</u>
At 31 December 2018	<u>8,535,598</u>
Carrying amount	
At 31 December 2018	<u>14,328,140</u>
At 31 December 2017	<u>15,942,162</u>

Individually material intangible assets

In 2017, the Company purchased an item of intellectual property which was considered to be an individually material intangible asset. The intangible asset has a carrying amount of \$8,267,280 (2017: \$11,023,040) and has a remaining amortisation period of 3 years (2017: 4 years).

In March 2018, the Company purchased intellectual property from another wholly owned subsidiary of Snap International II Limited, the Company's sole shareholder. The Company subsequently sold a portion of the acquired intellectual property to Snap Inc.

Snap Group Limited

Notes to the financial statements (continued)
For the year ended 31 December 2018

16 Tangible fixed assets

	Leasehold improvements \$	Furniture, fittings, and equipment \$	Computer equipment \$	Property, plant, and equipment \$	Total \$
Cost or valuation					
At 1 January 2018	5,073,177	1,170,495	316,309	3,510,713	10,070,694
Additions	147,720	-	283,386	1,585,004	2,016,110
Disposals	-	-	-	(1,179,706)	(1,179,706)
At 31 December 2018	5,220,897	1,170,495	599,695	3,916,011	10,907,098
Depreciation					
At 1 January 2018	655,505	192,576	83,637	518,319	1,450,037
Charge for the year	722,075	234,228	141,129	1,605,628	2,703,060
At 31 December 2018	1,377,580	426,804	224,766	2,123,947	4,153,097
Carrying amount					
At 31 December 2018	3,843,317	743,691	374,929	1,792,064	6,754,001
At 31 December 2017	4,417,672	977,919	232,672	2,992,394	8,620,657

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

17 Investments in subsidiaries

	2018 \$	2017 \$
Fair value		
At 1 January	6,520,100	6,520,100
Disposals	<u>(6,520,100)</u>	<u>-</u>
At 31 December	<u>-</u>	<u>6,520,100</u>

The reduction in 2018 reflects the dissolution of Obvious Engineering Limited, a subsidiary of the Company, on 6 November 2018. No gain or loss was recorded as a result of this dissolution.

18 Inventory

	2018 \$	2017 \$
Finished goods and goods for resale in transit	<u>1,443,492</u>	<u>19,623</u>

The Company recorded \$1,062,593 (2017: \$22,458,612) of inventory impairment expense related to Spectacles.

19 Trade and other receivables

	2018 \$	2017 \$
Amounts falling due within one year:		
Trade receivables	69,643,369	38,031,661
Amounts owed by group undertakings	19,040,033	16,552,203
Other receivables	314,079	619,814
Prepayments	2,565,528	1,147,821
VAT receivable	188,144	382,588
Prepaid royalty	25,100,000	25,100,000
Deferred royalty	3,912,607	3,731,801
Corporation tax	<u>3,087,383</u>	<u>981,867</u>
	<u>123,851,143</u>	<u>86,547,755</u>

Amounts owed by group undertakings are unsecured and repayable within 12 months. The amounts owed either bear interest equal to LIBOR plus an arm's length interest rate spread, or do not bear any interest.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

19 Trade and other receivables (continued)

	2018	2017
	\$	\$
Amounts falling due after more than one year:		
Other receivables	1,252,302	1,218,989
Prepaid royalty	127,448,714	152,548,714
Deferred royalty	77,727,939	80,020,994
	<u>206,428,955</u>	<u>233,788,697</u>
 Total trade and other receivables	 <u>330,280,098</u>	 <u>320,336,452</u>

Amounts owed by group undertakings are unsecured and repayable within 2-10 years. The amounts owed either bear interest equal to LIBOR plus an arm's length interest rate spread, or do not bear any interest.

The prepaid royalty and deferred royalty balances decreased due to royalty expense recognized during the year ended 31 December 2018, partially offset by additional rights licensed from Snap Inc.

20 Contract balances

The timing of revenue recognition, billings, and cash collections results in billed accounts receivables (trade receivables), unbilled receivables (contract assets, also known as accrued revenue), and customer advances and deposits (contract liabilities, also known as deferred revenue). Generally, billing occurs subsequent to revenue recognition resulting in contract assets. However, the Company sometimes receives advances or desposits from its customers, before revenue is fully recognized, resulting in contract liabilities. These assets and liabilities are reported on the balance sheet on a contract-by-contract basis at the end of each reporting period. Changes in the contract asset and liability balances during the year ended 31 December 2018 and 31 December 2017, were not materially impacted by any other factors.

Revenue recognized during the year ended 31 December 2018 and 31 December 2017 that was included in the contract liability balance at the beginning of each year was \$766,670 and \$30,000, respectively.

Contract assets

	2018	2017
	\$	\$
Amounts falling due within one year:		
Accrued revenue	44,357,901	24,378,332
	<u>44,357,901</u>	<u>24,378,332</u>

Contract liabilities

	2018	2017
	\$	\$
Amounts falling due within one year:		
Deferred revenue	3,146,099	766,670
	<u>3,146,099</u>	<u>766,670</u>

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

21 Cash and cash equivalents

	2018	2017
	\$	\$
Cash at bank and in hand	37,192,546	64,140,579
Marketable securities - less than 90 days	305,501	159,787,380
	<u>37,498,047</u>	<u>223,927,959</u>

At 31 December 2018, within the above balance there are marketable securities with a maturity of less than 90 days.

22 Marketable assets

	2018	2017
	\$	\$
Current financial assets		
Marketable securities - over 90 days	-	131,240,318

The fair value of the marketable securities was derived from quoted prices (unadjusted) in active markets and were therefore classified as Level 1 in the fair value hierarchy.

The Company's investments in marketable securities matured during the year ended 31 December 2018.

23 Trade and other payables

	2018	2017
	\$	\$
Amounts falling due within one year		
Trade payables	4,252,180	37,227,227
Payments on account	991,155	345,413
Amounts owed to group undertakings	178,038,952	136,036,779
Accrued expenses	65,754,387	51,831,177
Social security and other taxes	457,810	364,484
Acquisition holdback liability	2,000,000	2,473,843
Other payables	-	9,586,553
VAT payable	3,048,019	2,867,912
	<u>254,542,503</u>	<u>240,733,388</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

23 Trade and other payables (continued)

	2018 \$	2017 \$
Amounts falling due between two and five years		
Deferred rent	1,461,356	1,519,793
Long term acquisition holdback liability	-	2,000,000
Amounts owed to group undertakings	24,084,109	24,182,516
	<u>25,545,465</u>	<u>27,702,309</u>

	2018 \$	2017 \$
Amounts falling due after more than five years		
Amounts owed to group undertakings	<u>59,791,143</u>	<u>59,071,765</u>

	2018 \$	2017 \$
Trade and other payables: amounts falling due after more than one year	<u>85,336,608</u>	<u>86,774,074</u>

Amounts owed to group undertakings are unsecured and have been apportioned between those repayable within one year, 2-5 years, and over 5 years. The amounts owed either bear interest equal to LIBOR plus an arm's length interest rate spread, or have an interest rate in the range of 2.25% to 4.79%, or (in the case of certain amounts falling due within one year) do not bear any interest.

24 Provisions

	Provision for social security liability relating to stock based compensation \$
At 1 January 2018	3,243,305
Utilised in the year	(2,115,672)
At 31 December 2018	<u>1,127,633</u>

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

25 Called-up share capital and reserves

Allotted, called-up and fully paid shares

	31 December 2018 No.	31 December 2018 \$	31 December 2017 No.	31 December 2017 \$
Ordinary shares of £1 each	<u>2,000</u>	<u>2,607</u>	<u>2,000</u>	<u>2,607</u>

The Company has one class of ordinary shares which carry no right to fixed income.

The Company's other reserves are as follows:

Share premium account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Retained earnings

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

Other reserve

The other reserve contains the changes in fair value of financial assets other than trading assets. The Company classifies certain marketable securities as being held fair value through the statement of other comprehensive income.

26 Obligations under leases and hire purchase contracts

Operating leases

At the end of the reporting period, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 \$	2017 \$
Within one year	2,454,293	2,897,582
In two to five years	9,817,170	13,774,766
In over five years	<u>6,691,659</u>	<u>12,832,959</u>
	<u>18,963,122</u>	<u>29,505,307</u>

Operating lease payments represent rentals payable by the Company for its office properties. Leases are negotiated for an average term of five years and rentals are fixed for an average of five years with an option to extend for a further five years at the higher of the basic rent payable immediately before the review date and the prevailing open market rate.

Operating lease expenditure recognised in the period to 31 December 2018 was \$2,886,450 (2017: \$3,068,111).

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

27 Contingent liabilities

At 31 December 2018, there were no pending matters or settlements outstanding.

28 Off-balance sheet arrangements

The Company enters into operating lease arrangements for the hire of buildings and equipment as these arrangements are a cost effective way of obtaining the short term benefit of these assets. The annual commitments under these arrangements are disclosed in note 26. There are no other material off-balance sheet arrangements.

29 Events after the balance sheet date

The directors are not aware of any other matter or circumstance not mentioned above in these financial statements that has significantly or may significantly affect the Company's earnings or net assets.

30 Share-based payments

Share-based Compensation Plans

Snap Inc. maintains three share-based employee compensation plans: the 2017 Equity Incentive Plan ('2017 Plan'), the 2014 Equity Incentive Plan ('2014 Plan'), and the 2012 Equity Incentive Plan ('2012 Plan', and collectively with the 2017 Plan and the 2014 Plan, the 'Share Plans'). In January 2017, Snap Inc.'s board of directors adopted the 2017 Plan, and in February 2017 Snap Inc.'s stockholders approved the 2017 Plan, effective on March 1, 2017, which serves as the successor to the 2014 Plan and 2012 Plan and provides for the grant of incentive share options to employees, including employees of any subsidiary of Snap Inc., and for the grant of nonstatutory share options, share appreciation rights, restricted stock awards, RSUs, performance share awards, performance cash awards, and other forms of share awards to employees, directors, and consultants, including employees and consultants of Snap Inc.'s affiliates or subsidiaries. These plans are managed at the group level and further detailed information regarding these plans are discussed on pages 81 to 84 of Snap Inc.'s 2018 Annual Report, which is not part of these financial statements and can be obtained as set out in note 31.

The Company measures and recognizes compensation expense for share-based payment awards, including share options and RSUs granted to employees, based on the grant date fair value of the awards. The grant date fair value of share options is estimated using a Black-Scholes option pricing model. The fair value of share-based compensation for share options is recognized on an accelerated attribution basis over the vesting period during which services are provided in exchange for the award.

RSUs granted to employees before 31 December 2016 generally contain both service-based and event-based conditions to vest in the underlying shares. Awards granted after 31 December 2016 generally contain only service-based conditions to vest in the underlying shares. The event-based condition will be satisfied on either: (1) a change in control event, such as a sale of all or substantially all of Snap Inc.'s assets or a merger involving the sale of a majority of the outstanding shares of Snap Inc.'s voting shares, or (2) the effective date of the registration statement of Snap Inc. in connection with a qualifying initial public offering. The event-based condition was determined to be a non-vesting condition as defined in IFRS 2 - Share-based payment and was satisfied in March 2017.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

30 Share-based payments (continued)

The grant date fair value of RSUs is estimated based on the fair value of Snap Inc.'s underlying Class A common stock. For awards with event-based conditions, the fair market value at grant date has been adjusted downwards to factor in the likelihood of meeting the event-based condition. The service condition for RSUs granted prior to February 2018 is generally satisfied over four years, 10% after the first year of service, 20% over the second year, 30% over the third year, and 40% over the fourth year. The service condition for RSUs granted after February 2018 is generally satisfied in equal monthly or quarterly instalments over four years. For RSUs, the Company recognizes share-based compensation expense using the accelerated attribution basis over the vesting period.

Share-based compensation expense recognized in the profit or loss account for all periods presented is based on awards that are expected to vest less estimated forfeitures. The Company estimates the forfeiture rate of its share-based awards at the group level based on an analysis of actual forfeitures, employee turnover, and other factors. A modification of the terms of a share-based award is treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value of the modification to the award.

RSUs

The following tables summarize the RSU activity for the Company's employees during the year ended 31 December 2017 and 2018:

	Class A Outstanding RSUs	Class B Outstanding RSUs	Weighted-Average Grant Date Fair Value per RSU
	No.	No.	\$
Unvested at 31 December 2016	3,215,438	957,730	8
Granted	1,071,300	-	16
Vested	(1,149,084)	(763,771)	10
Forfeited	(158,853)	-	8
Unvested at 31 December 2017	<u>2,978,801</u>	<u>193,959</u>	<u>10</u>
	No.	No.	\$
Unvested at 31 December 2017	2,978,801	193,959	10
Granted	1,921,844	-	13
Vested	(986,569)	(191,346)	10
Forfeited	(414,783)	(2,613)	13
Unvested at 31 December 2018	<u>3,499,293</u>	<u>-</u>	<u>11</u>

Each RSU issued to employees of the Company by Snap Inc. settles to one share of Snap Inc.'s Class A or Class B common stock. No amounts are paid or payable by the recipient on receipt of the RSU. The RSUs may be entitled to dividends when and if declared by Snap Inc. The RSUs do not entitle the awardholder to any voting rights.

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

30 Share-based payments (continued)

The total fair value, as determined by the then fair value of Snap Inc.'s underlying common stock on settlement date, of RSUs vested during the year ended 31 December 2018 was \$15,264,623 (2017: \$32,392,469).

Total unrecognized compensation cost of RSUs was \$17,109,623 (2017: \$18,610,862) as of 31 December 2018 and is expected to be recognized over a weighted-average period of 1.7 years (2017: 3.0 years).

For the year ended 31 December 2018, for RSUs issued to employees, Snap Inc. withheld 39,004 (2017: 1,037,638) shares of common stock by net settlement, sold 665,262 shares (2017: nil) of common stock on behalf of employees, and provided \$8,272,919 (2017: \$17,251,012) in cash to the Company for these shares. For the year ended 31 December, 2018, the Company remitted \$8,272,919 (2017: \$17,251,012) in cash to meet the related tax withholding requirements on behalf of the Company's employees. As of 31 December 2018, the Company recorded a \$15,264,944 (2017: \$32,392,469) liability within amounts owed to group undertakings for the reimbursement of its employees' taxable income upon vesting of RSUs payable to Snap Inc. The entire \$15,264,944 liability recorded as of 31 December 2018 was previously recognized as share-based payment expense against the share-based payment reserve. Of the \$32,392,469 liability recorded as of 31 December 2017, \$1,043,356 was previously recognized as share-based payment expense against the share-based payment reserve and \$17,251,012 was previously recognized as share-based payment expense against other payables to cover estimated tax withholding requirements for the Company's employees.

Share Options

The following tables summarize the stock option award activity for the Company's employees under the Share Plans during the year ended 31 December 2017 and 2018:

	Class A Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
	No.	\$	No.	\$
Outstanding at 31 December 2016	-	-	-	-
Granted	151,463	14.72	-	-
Vested	-	-	-	-
Forfeited	-	-	-	-
Outstanding at 31 December 2017	151,463	14.72	4.99	-
Exercisable at 31 December 2017	151,463	14.72	4.99	-
Vested and expected to vest at 31 December 2017	151,463	14.72	4.99	-

Snap Group Limited

Notes to the financial statements (continued)

For the year ended 31 December 2018

30 Share-based payments (continued)

	Class A Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
	No.	\$	No.	\$
Outstanding at 31 December 2017	151,463	14.72	4.00	-
Granted	-	-	-	-
Vested	(26,477)	-	-	-
Forfeited	(8,654)	-	-	-
Outstanding at 31 December 2018	116,332	14.72	4.00	-
Exercisable at 31 December 2018	116,332	14.72	4.00	-
Vested and expected to vest at 31 December 2018	116,332	14.72	4.00	-

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying share option awards and the closing market price of Snap Inc.'s Class A common share as of 31 December 2017 and 2018.

Each option granted to employees of the Company by Snap Inc. settles to one share of Snap Inc.'s Class A common stock. No amounts are paid or payable by the recipient on receipt of the option. The options may be entitled to dividends when and if declared by Snap Inc. The options do not entitle the optionholder to any voting rights. Employees must pay the option exercise price or elect to use the cashless exercise method to exercise a vested option. Options may be exercised at any time from the date of vesting to the date of their expiration subject to restriction on cashless exercises.

Snap Inc. granted 151,463 options to employees of the Company on 29 December 2017 with an exercise price of \$14.72 and an expiration date of 5 years. These options were fully vested on the grant date and the total grant date fair value of \$757,450 was recognized in the period ending 31 December 2017.

The total intrinsic value of options exercised during the period ending 31 December 2018 was \$126,656 (2017: nil). As of 31 December 2018, the Company recorded a \$126,656 (2017: nil) liability within amounts owed to group undertakings for the reimbursement of its employees' taxable income upon exercise of options payable to Snap Inc. The entire \$126,656 liability was previously recognized as share-based payment expense against the share based payment reserve.

Share-based compensation expense for share options granted to employees is estimated based on the option's fair value as calculated by the Black-Scholes option pricing model. The Black-Scholes model requires various assumptions, including the fair value of Snap's common stock, expected term, expected dividend yield, and expected volatility. If any of the assumptions used in the Black-Scholes model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. The expected term of options represents the period that Snap Inc.'s share-based awards are expected to be outstanding. The risk-free interest rate is based on the implied yield currently available on U.S. treasury notes with terms approximately equal to the expected life of the option. The expected dividend rate is zero as Snap Inc. currently has no history or expectation of declaring cash dividends on Snap Inc.'s common stock.

Snap Group Limited

Notes to the financial statements (continued) For the year ended 31 December 2018

30 Share-based payments (continued)

The weighted-average assumptions used to determine the fair value of employee stock options granted during the year ended 31 December 2017 were as follows:

Grant date share price of Snap Inc.'s Class A common stock	\$14.72
Exercise price	\$14.72
Expected term (in years)	3
Expected dividend yield	0.00%
Expected volatility	50.00%
Risk-free interest rate	1.94%
Others	-
Fair value at grant date	<u>\$4.77</u>

In 2018, the Company adopted the amendments to IFRS 2 that are effective for annual periods beginning on or after 1 January 2018; these amendments introduced an exception where certain qualified share-based payment transactions with net settlement features no longer need to be bifurcated between separate equity- and liability-settled awards. As of 31 December 2017, the Company had recognized a \$9,586,553 liability within other payables related to the liability-settled portion of its unvested awards with net settlement features, which consisted of \$4,737,121 of additional share-based compensation expense and \$4,849,432 recharged in prior years to the share-based payment reserve. The \$9,568,553 was reversed upon adoption of the new amendments.

Total share-based payments expense, inclusive of both RSUs and share options, recognized in the year ended 31 December 2018 was \$9,730,587 (2017: \$34,598,724). Excluding this one-time reversal of expense upon adoption of the new amendments to IFRS 2, the Company would have recognized total share-based payments expense of \$14,467,707 in the year ended 31 December 2018.

31 Controlling party

The immediate parent of the Company is Snap International II Limited, a company incorporated in England and Wales with its registered office at 77 Shaftesbury Avenue, Soho, London, W1D 5DU.

The ultimate controlling party of the Company is Snap Inc., a company with its registered office at 2772 Donald Douglas Loop North, Santa Monica, CA 90405.

Snap Inc. is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2018. The financial statements of Snap Inc. are available at <https://investor.snap.com>.